

Written Ministerial Statement

Pensions tax summary of responses document

The Commercial Secretary to the Treasury (Lord Sassoon): My honourable friend the Financial Secretary to the Treasury has today made the following written ministerial statement.

As announced in October, from April 2011 the annual allowance (AA) for tax-privileged pension saving will be reduced from £255,000 to £50,000 and from April 2012 the lifetime allowance will be reduced from £1.8 million to £1.5 million. This is a simpler and fairer approach to making a more sustainable and affordable system of pensions tax relief than the previous Government's complex and damaging proposals. The reduction of these allowances will generate around £4 billion annual revenue in the steady state while preserving incentives to save, and lessening the impact on the ability of UK business to attract and retain talent. This approach has been welcomed by pension and employer groups and the Government has continued to work in consultation with them to finalise the design of the new pensions tax regime.

The Government expects most individuals and employers to adapt their pension saving behaviour to avoid incurring a charge by exceeding the AA, and has put in place measures such as the carry forward of unused allowances to protect individuals further. However, recognising that in some circumstances individuals could still see high charges reflecting significant uplift in pension value in a given year, the Government has consulted on options to enable individuals to meet these charges from their pension benefits.

In line with the strong preference expressed by most respondents, the Government has decided that where AA charges are met from pension benefits, the tax should be paid at the point the charge arises. In effect, schemes will have a considerable amount of time to complete the payment process, with additional flexibility being granted in the first year. Individuals with AA charges above £2,000 will be able to elect for the full liability to be met from their pension benefit. Schemes will be required to operate this facility only where an individual has exceeded the AA outright within that scheme in the relevant year. The Government has given schemes flexibility in how they operate, but is clear that any adjustment to an individual's pension benefit should be fair to all scheme members.

The detailed policy specification has been set out in a Summary of Responses document and draft clauses on which the Government welcomes comment by 17 March. An update to the Tax Information and Impact Note has also been made. All documents are available on the Treasury website, and have been deposited in the Libraries of the House.

HM Treasury

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